

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Retail Foods

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Report Highlights:

In Fiscal Year (FY) 2014, Spain imported \$2.2 billion of agricultural, fish and forest products from the United States, up 19 percent compared to the previous year and the highest import figure on record. Spain is expected to end 2014 with a modest growth with some positive sectors such as Foreign Direct Investment, exports and tourism. The retail food sector is adapting to the new trends of the consumer's shopping habits. However, even in an adverse financial situation the retail food sector is proving to be very dynamic in order to overcome the obstacles faced by the sector. As the consolidation and maturity of the retail food industry continues, medium and long- term opportunities continue to arise for U.S. exporters.

Table of Contents:

INDEX

SECTION I. MARKET SUMMARY

SECTION II. ROAD MAP FOR MARKET ENTRY

- A. Hypermarket, Supermarkets and Hard Discount Stores
- B. Convenience Stores and Discount Stores
- C. Traditional Markets

SECTION III. COMPETITION

SECTION IV. BEST PRODUCT PROSPECTS

SECTION V. POST CONTACT AND FURTHER INFORMATION

Exchange rates:

Average exchange rate used in this report, unless otherwise specified:

Calendar Year 2009: US Dollar 1 = 0.72 Euros

Calendar Year 2010: US Dollar 1 = 0.75 Euros

Calendar Year 2011: US Dollar 1 = 0.72 Euros

Calendar Year 2012: US Dollar 1 = 0.78 Euros

Calendar Year 2013: US Dollar 1 = 0.75 Euros

Calendar Year 2014: US Dollar 1 = 0.75 Euros

(Source: The Federal Bank of New York and/or the International Monetary Fund)

SECTION I. MARKET SUMMARY

Economic Trends

The slow and timid recovery of the Spanish economy that we started to see in the last quarter of the year 2013 has continued during 2014. According to different sources, from the International Monetary Fund, the EU or the OECD to the latest data collected by the National Institute of Statistics (INE) confirm that Spain will reach at least 1.3% growth by the end of 2014. Moreover, a growth of 1.7% is expected to be reached in 2015. Spain has maintained a steady positive economic growth for the last 5 consecutive quarters.

The above details mean a change in the Spanish economy and the first signs of a recovery of the economy after 7 years of economic crisis. During 2014 Spain has become one of the EU economies with the highest growth, becoming one of the EU countries with the strongest results. However, the growth has slowed during the second quarter of the year 2014 due to the situation in other parts of Europe, Germany, France and Italy in particular, which resulted in a reduction of exports of Spanish products to these countries. On the other hand, the internal demand increased in 2013 and this is very positive for US exporters. The growth in Spain was mainly due to external demand while the internal demand was still weak. This has changed during the second part of the year 2014 and we are seeing how, although the external demand has decreased in the last few months, the internal demand has increased, and therefore, Spain has maintained the growth that started in 2013.

ECONOMIC TRENDS	2009	2010	2011	2012	2013	2014*
Real GDP Growth Rate	-3.8	-0.2	0.1	-1.6	-1.2	1.3
Inflation (%)	-0.2	2.0	3.1	2.4	1.5	-0.1
Unemployment (%)	17.9	19.9	21.4	24.8	26.1	24.0
GDP per Capita (€)	24,700	24,700	24,700	24,900	25,000	25,000

Source: Eurostat (www.ec.europa.eu/eurostat)

* Estimates

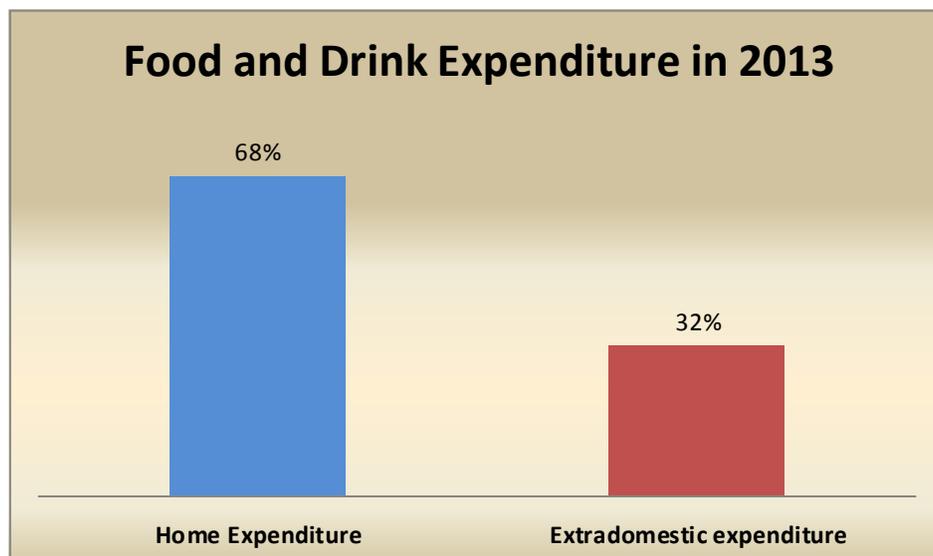
However, the situation is still uncertain and weak due to different factors, some external such as the difficult situation in some EU countries and some internal, such as the debt and the unemployment rate which is still very high at 24% according to the IMF. However, the situation is changing slowly and there are some positive indicators, unemployment for the first time in years has been reduced by 2% in the last year. The public perception of the economy in general terms, according to the CIS (Spanish

Centre for Sociological Research), has improved during the past year. This indicator can result in better prospects for the family expenditure, although the increase in expenditure will not be very significant yet. Also, the government plan to approve some incentive measures to help the economy to be more dynamic through a reduction in certain taxes

The consumer has also changed their habits as The Spanish Minister of Agriculture, Isabel Garcia Tejerina, during the presentation of the MERCASA report “Food in Spain 2014” has recently mentioned. This report states that 60% of the consumers have modified the way they buy or prepare their food in order to avoid food waste and to make some savings. The report shows also that Supermarkets have increased their market share during the last year and represent 37% of the total expenditure (4.3% higher than previous year), continuing to be the main sales channel, while hypermarkets experienced a slight increase of 0.7% with a quota of just 9.8%. It should be noted that traditional small retail stores are well represented with a 21.8% and the on-line sales have reached 10.4% of sales. According to this report Spanish, consumers in 2013 are prioritizing quality (64.1%) over price (55.3%) and proximity (47.8%).

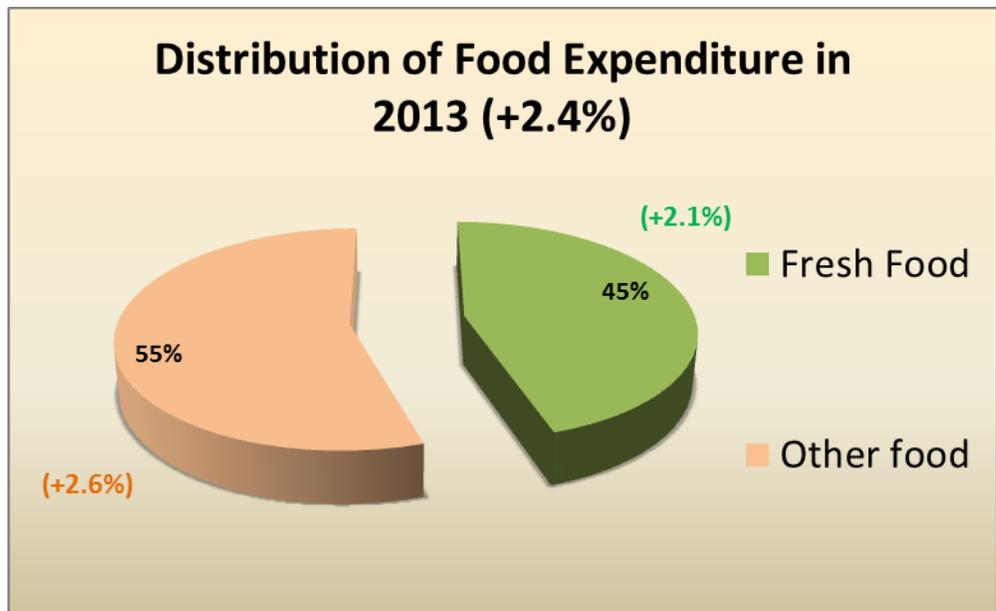
Consumption Trends

The expenditure in food and drink in 2013 was 101.250 million Euros (\$134,662.50 million). Most of the expenditure (\$92,069.25 million) was for consumption at home while the extra domestic expenditure (\$42,596.25 USD million) was spent mainly in Restaurants, Foodservice, fast food, etc. The extra domestic expenditure in 2013 declined by 3.1% compared with 2012, however, the domestic expenditure increased by 2.4%. This resulted in a total expenditure increase of 0.6%



Source: Spanish Ministry of Agriculture, Food, and Environmental Affairs (MAGRAMA)

The increase in expenditure has been higher in Other food with 0.5% more increase than in Fresh food, 2.6% against 2.1%, and the total volume of expenditure is also higher in Other food than in Fresh food. However it is a good result for Fresh food.



Source: Spanish Ministry of Agriculture, Food, and Environmental Affairs (MAGRAMA) 2013

The main products consumed are Fresh Fruits (15.2%), Milk (11.2%), Vegetables and fresh potatoes (13.1%), Meat (7.9%), Water (7.7%), Sparkling waters (6.9%), Bread (5.5%), Dairy products (5.3%), Fish (4%), Oil (2%), Wine and Sparkling wine, Eggs, etc. representing the rest of the food and drinks the remaining 17.7%.

If we talk about the budget of the family for food and drinks, the expenditure is distributed as follows: Meat (22.1%), Fish (13.1%), Fresh Food (9.3%), Dairy products (8.3%), Vegetables and Fresh Potatoes (7.9%), Bread (5.7%), Milk (3.5%), and Oil, Eggs, Wine and Sparkling wine... representing 20.8% the rest of the food and drink products.

It is to be noted that there is an increase in volume of basic products such as bread, pulses, rice, with an important increase in Pasta and flour (6.4%) and semolina (10.4%). Also, some products have declined in consumption, such as Fresh vegetables (-2.2%), however, the expenditure has increased by 3.6%. Wines and, in particular, sparkling wines have declined in volume by 3.7%, although the expenditure in these products have risen 2.3%. An interesting product is the Oil which has increased its volume by 3.3%, however this represents an increase in expenditure of 19.1%, this could be the result of a bad harvest year for olive oil in 2012 and, therefore, an increase in price. Also the increase of VAT which started to be applied in 2012 has also the same effect.

However, the latest details we have about the expenditure in 2014, September 2013 to September 2014, show a decline in kilos consumed and also in millions of US Dollars spent in home consumption.

	2013	Sep 2013-Sep 2014	%Change
Volume Million Kg/Litres	30.405,54	29.870,65	-1.80%
Value Million US Dollar	91.604,75	89.099,01	-2.70%
Consumption per capita	670,74	661,23	-1.40%
Expenditure per capita	2.020,77	1.972,11	-2.40%

Source: Spanish Ministry of Agriculture, Food, and Environmental Affairs (MAGRAMA)

US Dollar Million

If we look at how this is distributed, we realize that the decline has been generalized and not focused in a particular set of products. The basket of the family consists mainly of milk and dairy products, fresh fruits and vegetables, Meat and Fish. Please see below a table of consumption in million Kg/Liters.

Consumption of Food and Beverages at Home

PRODUCTS	Quantity (million Kg/Litre)		
	Sep 2012-Sep 2013	Sep 2013- Sep 2014	% change 13/14
Meat	2,389.4	2,310.9	-3.3
Seafood	1,232.8	1,195.2	-3.1
Fresh Fruits	4,714.0	4,650.5	-1.3
Fresh Vegetables and Fresh Potatoes	3,945.3	3,859.5	-2.2
Bread	1,689.9	1,629.9	-3.5
Oil	607.0	610.2	0.5
Eggs	390.4	382.7	-2.0
Milk and Dairy Products	5,159.4	5,067.1	-1.8
Wine and Sparkling Wine	418.2	399.5	-4.5
Bottled Water	2,358.6	2,339.3	-0.8
Spirits	41.1	38.1	-7.3
Refreshing and sparkling drinks	2,086.3	2,062.5	-1.1
All Other Products	5,373.1	5,325.2	-0.9
TOTAL	30,405.5	29,870.7	-1.8

Source: Spanish Ministry of Agriculture, Food, and Environmental Affairs

(www.magrama.gob.es)

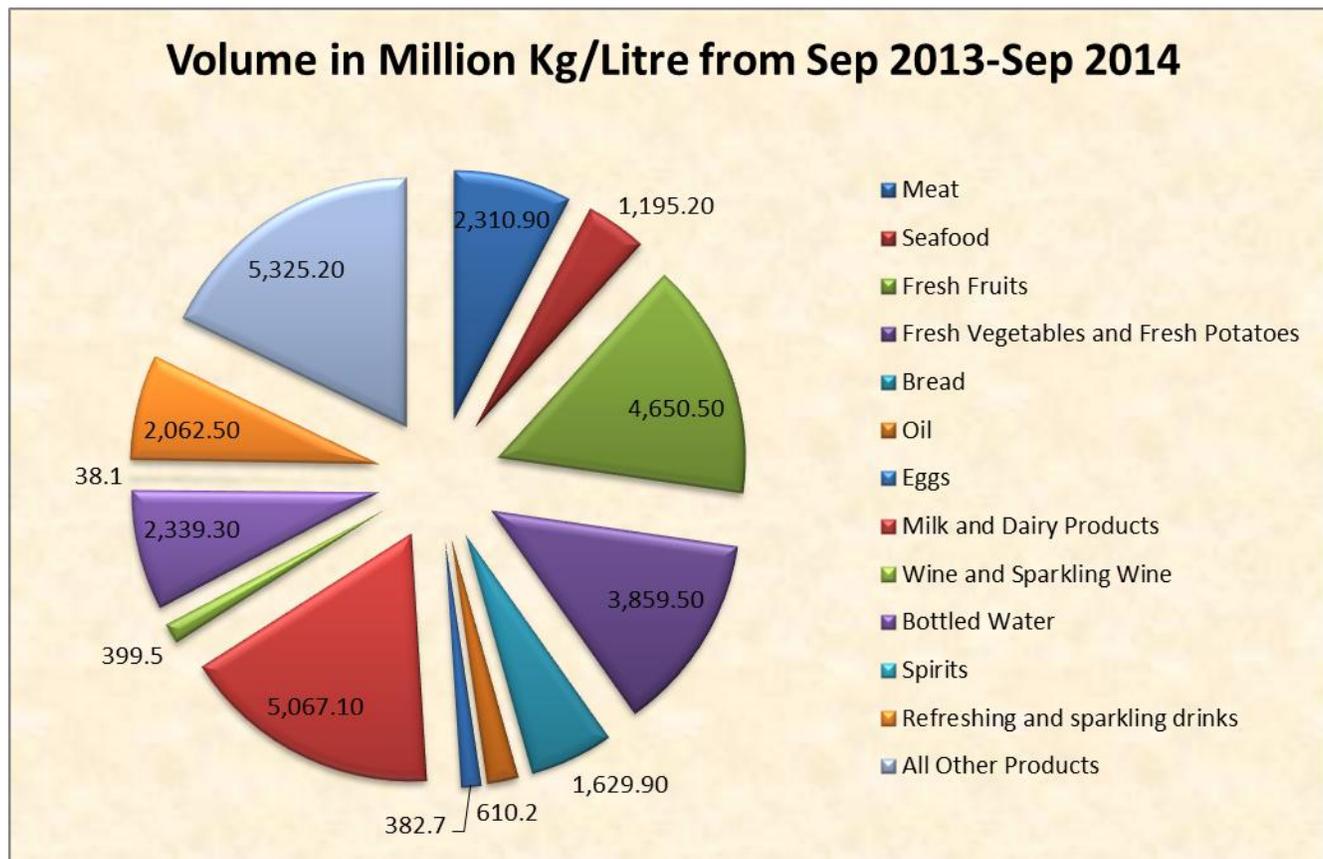
All the products with the exception of Oil show negative results with less consumption. However, the decline in Spirits is quite important (7%) and Wine and Sparking wine (4.5%), products that continue their fall which started few years ago. It is also interesting to see that meat, bread and fish show negative results with a reduction of million Kg/Liters consumed of around 3%. The rest of the products

have a similar consumption compared to the previous year, although all of them see a decline in consumption with the previously mentioned exception of Oil, which has had a very slight increase. Again, like previously mentioned, if we look at the expenditure in million US Dollar the results show

the biggest decline in Fresh Fruits (7.2%), Vegetables (6.2%) and although oil has increased its consumption this represents a decline of 6% in the total expenditure compared with 2013.

Therefore, we can conclude that the consumption has declined from Sep 2013 to Sep 2014 by 1.8%. This decline represents a drop in the domestic expenditure of 2.7%. This can be explained in part by the reduction in unit price due to a fierce commercial competition that has forced to reduce the profit margins, by the low income of the families and also by the fact that the population in Spain has fallen due to immigrants returning to their own countries or Spaniards emigrating to other countries in search for a job elsewhere.

Consumption of Food and Beverages at Home (Million Kg/Litres)



Source: Chart from the above table of MAGRAMA

VAT

On September 1, 2012, the VAT levied on basic food products increased. This measure had a very negative effect on value sales through grocery retailers in 2012 and 2013. Although products designated as essential by the government are taxed at the reduced VAT rate of 4 percent, the bulk of products sold through the grocery channel are now subject to a 10 percent rate of VAT, 25 percent higher than the

previous 8 percent. Retailers tend to assume as much as they can the burden of the tax increase at the expense of their profit margin, maintaining unit prices in order to avoid suffering further declines in their already shrinking volume sales.

During 2013 there was some political and financial pressure to increase even more the VAT levied on certain products, however, in November 2013 the Spanish Prime Minister announced that his Government had no intention to modify the VAT, at least in the short/medium term. In spite of this, the Spanish Government has been working on a Tax Reform in 2014 and one of the proposals was to increase the VAT of certain products to 21%. After a very complicated year for the food and drink industry due to a deflation in the sector and the previous increase in the VAT applied to the majority of the products of this sector (10% VAT) in 2012, a further increase of VAT to 21% would have been devastating for this industry. The Ministry of Finance met with representatives of the Food and Drink Retail Sector and reached an agreement, the VAT for these products would not be increased in this Tax Reform. Even more, the Spanish Government is trying to incentivize the internal consumption through a series of measures taken in this Tax Reform, such as a reduction in the Income Tax levied, which should result in an increase of disposable income for consumers. However, this is only a temporary measure to avoid deepening the crisis suffered by the Food sector during recent years, but there is a possibility of an increase in VAT in the medium term, maybe in 2016.

Consumer Confidence

The Centre for Sociological Research (CIS) monthly publishes the consumer confidence with regards to the current situation and the expectations for the next six months. We can see an important increase in the consumer confidence, which has risen from 51.2 in October 2013 to 74.2 in October 2014. This is an increase of 31% in the consumer confidence with regards to the current situation.

Consumer Confidence from Oct 2013 to Oct 2014													
	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014
Consumer Confidence Indicator	66.3	72.3	71.0	77.7	71.5	76.3	82.0	84.9	89.3	88.9	87.7	89.3	86.8
Current Situation	51.2	54.4	53.8	62.0	55.0	60.4	66.2	72.2	74.4	77.0	77.0	76.3	74.2
Expectations next 6 months	79.5	90.1	88.2	93.4	88.0	92.2	97.7	97.6	104.2	100.8	98.4	102.2	99.3

Source: Spanish Centre for Sociological Research

The consumer confidence with regards to the expectations for the next 6 months has also risen from

79.5 in October 2013 to 99.3 in October 2014, which is an increase of 19.9%.

The consumer confidence was very low in 2013 due to the persistent economic recession. The Government of Spain introduced many austerity measures, a labor reform made redundancy cheaper and

salaries were revised down in order to adapt businesses that were underperforming. All these along with constant negative news about the economy and the financial sector resulted in a feeling of uncertainty about their jobs to those who still had a job and real pessimism to those who had lost their jobs.

The first positive results of such difficult measures have started to be seen in 2014, and the consumer confidence increased steadily during the first part of the year, reaching the highest results in June 2014. Then, it decreased a bit in July and August due to some negative forecast about the economy in Europe and other economic results like the Spanish debt, which could affect the so far weak growth of the Spanish economy. However, it is important to highlight the good results compared to the ones in October 2013, which mark a change in the current trend. The consumer confidence is an indicator of foreseeable expenditure of the Spanish households, the higher the confidence the higher the expenditure.

New measures to improve retail sales and competition

The Reform Program approved by the Government of Spain during the second half of 2012 that included measures for the liberalization and increased flexibility of the retail trade is being incentivized by further measures in 2014. The objective was to increase freedom and efficiency in the retail sector and create new instruments for effective competition. The main measures included:

- Liberalization of trading hours: The minimum number of opening hours per week was increased from 72 to 90 and the minimum number of public holidays from 8 to 10

- Liberalization of promotional sales activities: This measure increased flexibility for the current regime, eliminating restrictions and incompatibilities in promotional activities such as sales periods. In July 2012, Madrid was the first region in Spain to adopt these measures and take them one step further. Now, retailers may open any day of the year at any time. Previously, large retailers were restricted from opening on Sundays and certain holidays.

-Liberalization of trading hours in areas declared of particular touristic interest

There has been some strong opposition from some Regional Governments and traditional retail stores to introduce and apply the above measures, because they believe these measures will only benefit supermarkets and modern stores and, therefore, deteriorating even more their current difficult situation. However, the Government of Spain has reinforced the introduction of these and new measures with a new legislation approved in July 2014 as they believe these measures will reactivate the economy and

tourism can play an important part on the recovery.

The main changes are as follows:

- Municipalities with a population of 100,000 or more and those that have more than 600,000 overnight stays will have the obligation to declare a particularly touristic area where liberalization of trading hours must be introduced. If the area is not declared by the appropriate regional authority within a six months period, the whole municipality will have complete freedom of trading hours during the year. This is to avoid inaction by some of the reluctant authorities.
- Not only stores can open without previous approval from the Authority, as it was approved in 2012, but there is a simplification in procedures by introducing only one authority that will deal with the whole process of approval. This measure had been recommended for some time by the IMF.

With all these measures, the Government is hoping to increase the creation of jobs and to make the economic activity more dynamic through private consumption with the help of the tourism.

The results obtained so far are not clear. For some, like the Madrid Regional Government, the results are very positive, more than 5.500 companies and nearly 13,000 jobs have been created since the approval of the law in the Madrid Region. However, not all organizations feel the same and the Confederación Española de Comercio (CEC- Spanish Confederation of Retailers) believe that the liberalization has not brought any benefits to the retail stores as their sales have continue dropping.

At the same time, the Ministry of Economy and Competitiveness, aware of the difficult situation of small businesses, has been developing a plan to modernize and support the traditional retailers. They have supported Traditional Old Markets to help them to innovate, to improve their management, and to make these commercial areas more dynamics with all sorts of events to promote sales. The traditional retailer have received support to renovate buildings and, as a result of this, old traditional markets are having a new and a modern concept of market, which is designed to respond to new consumer demands. These traditional markets are open now to innovative products, new products displayed in a more attractive way that attract tourists and residents alike.

It seems that all these measures are starting to produce some positive results, and during the last quarter of 2014 the employment in the sector is raising, which again is a change in trend.

The importance of Tourism

Tourism continues to be the driving force of the Spanish recovery. This has been a year of records, according to the Spanish Ministry of Industry, Energy and Tourism, Spain received in the first 10 months of the year 58.3 million international visitors, the highest figure ever, and they expect to close the year 2014 with at least 63 million visitors. This represents a year-on-year increase of 7.5%.

The countries of origin of these visitors are mainly from the United Kingdom, France and Germany,

followed by nationals from the Nordic Countries, which have continued to see a strong demand. Italy has experienced a recovery and visitors from Belgium are also increasing. Russian tourists have fallen during 2014, but there has been an increase of tourists from Asian countries.

October 2014 also reached a record for this month with 5.9 million of international tourists which is a 7.8% increase. However, the sector expects to slow down a bit in the 4Q of the year. Anyway, 2014 as it was 2013 are exceptionally good years for tourism in Spain, which has benefited from the unstable situation in other countries in the Mediterranean area.

The total expenditure of visitors reached also a record with 56,374 million Euros (\$74,977.42 million) from January to October 2014, an increase year-on-year of 7%. The average daily expenditure per tourist in the same period was maintained in 109 euros (\$144.97), however, in October the average expenditure per tourist has fallen by 3% with 973 euros (\$1,294.09). France recorded the highest increase in their expenditure by 16.6%, and the UK and Germany had a slight increase of approximately 3.5%.

It should be noted that the US has increased their visitors by 20.1% in October and the expenditure by 25.1%.

Spain has regained its place as the third world power in tourism after France and the US. These are excellent results that benefit the HRI industry, and as a consequence of this, the food and drink sector in general.

Although the foreign visitors continue to rise, the internal demand has not seen a recovery during 2014, more the opposite, as there has been 1 million less internal tourists during the first ten months of the year. This represents a 0.7% drop in demand.

Finally, it is interesting to see a change in the preferences of the visitors about where to stay. The preferred option is still the hotel accommodation (63.8%), however, the increase year-on-year was only 4.7% while the increase in accommodation in other places than a hotel shows an increase of 11.4%, representing now 36.2% of the total.

Transatlantic Trade and Investment Partnership (TTIP)

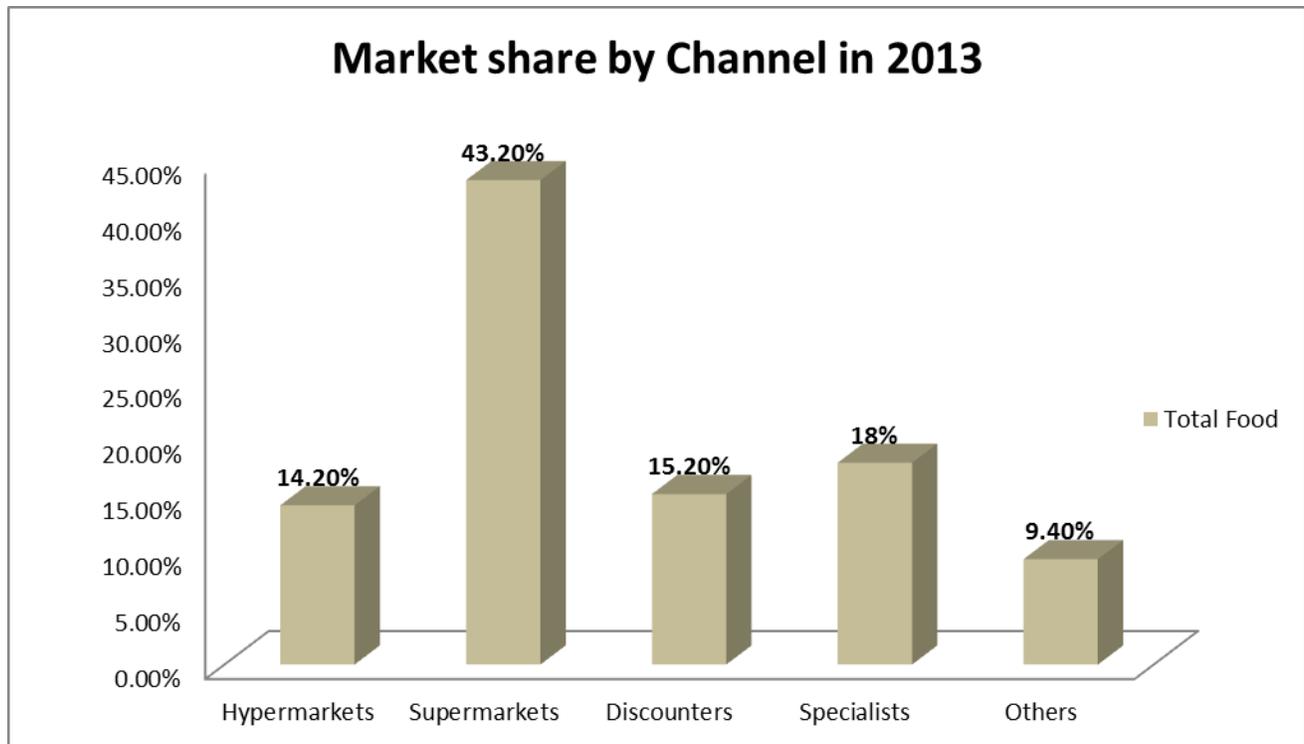
The Transatlantic Trade and Investment Partnership (TTIP) is a trade agreement currently being negotiated between the European Union and the United States. Negotiations started in July 2013. The TTIP will be an ambitious, comprehensive trade and investment agreement that will offer benefits to both sides, increasing trade, creating jobs and promoting international competitiveness. Bilateral food and agricultural trade between the United States and Spain is nearly 3.5 billion dollars, with the balance of trade being fairly even in recent years.

Some important issues on the table relate to market access, regulatory issues and non-tariff barriers and trade rules. The impact on trade will depend on the degree of recognition of both partners. A wide and

ambitious agreement will likely benefit both sides and increase agri-food trade in the coming years

Retail Trends

There are not many changes from 2012 in terms of where consumers prefer to do their shopping. According to the information from the Spanish Ministry of Agriculture, during 2013 Supermarkets are the preferred option by far compared with any other channel to do the shopping and capture nearly half of the expenditure with 43.20%, as it can be seen in the graphic below.

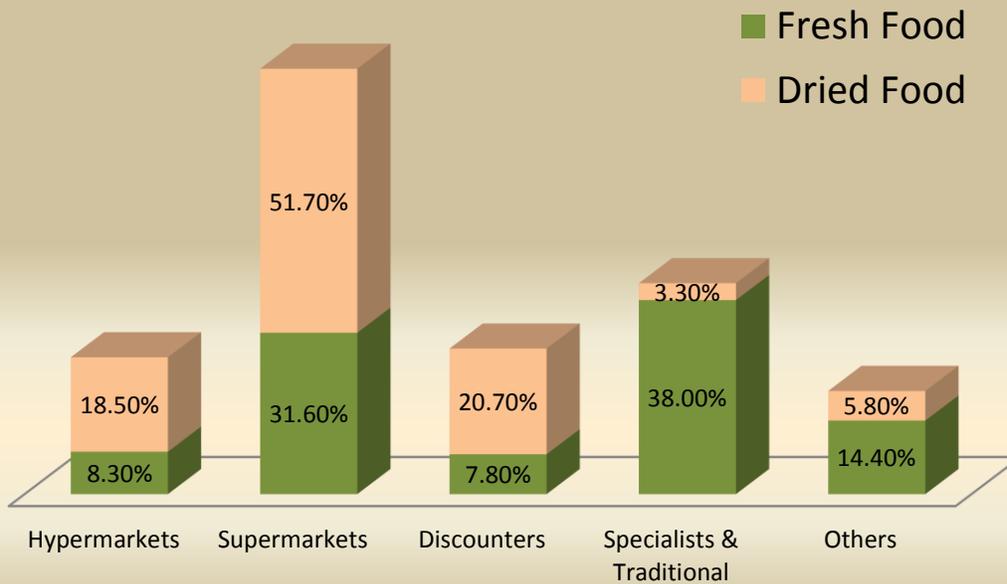


Source: Data obtained from MAGRAMA "Food consumption in Spain 2013"

Hypermarkets continued to lose market share in favor of the supermarkets, losing 1.3% in 2013 while Supermarkets have increased their quota by 2.3%. Also, Discounters increased their quota by 1.1% while Specialists lost 1.2% share of the market in 2013. This trend continues during 2014 with similar results, although we can see a drop in Supermarkets (-1.9%) and an equivalent growth in discounters (+1.8%), however, the Specialists continue their fall (-6.8%) according to details obtained until September 2014 by the Spanish Ministry of Agriculture.

When we take a closer look at what category of products are bought where, there are interesting results. While the Supermarket is still the king in the Dried food category with more than 50% of the sales, Specialists, including traditional groceries, are the main channel when we talk about the Fresh food category, followed by Supermarkets.

Preferred Channel by Category in 2013



Source: Data obtained from Ministry of Agriculture

The financial situation of many families in Spain has changed the way they do their shopping in order to make savings. Proximity became very important and one of the results was that the hypermarket lost quota of sales because consumers needed a car to drive to the outlets, as they are usually located in the outskirts of cities. The consumer is tightening his belt and the Hypermarket is seen as a place which promotes more expenditure due to the variety of products in display. At the same time, and as oppose as the perception years ago, the consumer does not perceive that Hypermarkets have better prices than other food retail stores more conveniently located in their neighborhood.

On the other hand, the supermarket saw an opportunity to adapt quickly to the customers' new shopping habits and needs, and has been increasing their quota of sales in the past few years, since the start of the economic crisis. Supermarkets have gained quota of market share in part due to the proximity, their smaller size with enough variety of basic products and without the temptation that hypermarkets offer. Another important factor has been the proximity and convenience they offer when the visits to the stores are frequent. Finally, and very importantly, is the introduction and development of the Supermarket's own private labels which offer value for money, in particular, Mercadona has played a leading role in this trend with its private label Hacendado.

According to Euromonitor International, Mercadona is the leader with nearly 20% share of the retail value followed at a distance by Centros Comerciales Carrefour SA, a hypermarket with 7% and the

Eroski Group with 5.1%, which in total account for 31.7% of the total market value. There is fierce competition in the city centers for a share of the market and traditional groceries are finding very difficult to compete with supermarkets and discounters when unit price is so important for a customer with a very reduced disposable income. As a result of the lower income of the consumers in general, due to the persistent negative results in the economy of the country, major supermarkets have been promoting and expanding the products of their own private labels in order to increase their sales and profits. The important weight of the private label's sales in the market can be an opportunity for US food exporters to be introduced in the Spanish market.

Grocery Retailers Company Shares (% Value)

	2009	2010	2011	2012	2013
Mercadona SA	15.3	16.2	17.4	18.8	19.6
Centros Comerciales Carrefour SA	7.0	6.9	8.1	7.1	7.0
Eroski, Grupo	6.4	6.2	5.5	5.3	5.1
Dia SA	4.3	4.3	4.4	4.6	4.8
Alcampo SA	4.0	4.3	4.2	4.5	4.6
El Corte Inglés SA	3.5	3.4	3.0	3.0	2.8
Lidl Supermercados SAU	2.4	2.6	2.4	2.5	2.6
Consum, Sociedad Cooperativa Ltda	1.7	1.8	1.9	1.9	1.9
Franquipan SL	0.0	0.0	0.0	0.0	1.8
Spar Española SA	1.2	1.1	1.1	1.1	1.0
Grupo el Arbol Distribución y Supermercados SA	0.8	0.8	0.9	0.9	0.9
Bon Preu SA (Grupo)	0.6	0.8	0.8	0.9	0.9
Condis Supermercats SA	-	0.9	0.9	0.9	0.8
Supermercados Sabeco SA	1.1	1.0	0.9	0.9	0.8
Dinosol Supermercados SL (Grupo)	1.4	1.3	1.4	0.9	0.8
Repsol YPF SA	0.7	0.7	0.6	0.6	0.6
E Leclerc Grupo	0.3	0.4	0.5	0.6	0.6
Aldi Supermercados SL	0.5	0.5	0.5	0.6	0.6
Congelats Reunits SAU	0.2	0.2	0.2	0.2	0.2
Promotora de Minimercados SA	0.2	0.2	0.2	0.2	0.1
ITM Ibérica SA	0.2	-	-	-	-
Others	48.4	46.5	45.1	44.8	42.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International

MERCADONA is the most successful Supermarket in introducing and promoting their own private label, Hacendado, and focused on offering quality products at a lower price than commercial brands. This option has resulted very successful in a crisis environment and others have followed the same formula.

Mercadona has become leader in many aspects of the food distribution in Spain, not only has the highest market share but it is also the most profitable and the one with most selling space in 2013. Mercadona has continued to be successful during all these dreadful years of crisis and is expanding its operations to regions in Spain where they did not have presence yet, as it is the case of the Basque Country. It is possible that, in the future, once the whole country is covered by Mercadona outlets, they will expand their operations and concept to other countries.

The main two actors of Discounters in Spain are Dia and Lidl. This type of retail store has seen positive results during 2013 which have increased even more during 2014. DIA had a strategy of focusing in stores of proximity, small stores in the neighborhood where the consumer can buy the basic products they need when they need them. Therefore, this strategy coincide with the shopping habits more in demand at the moment by the Spanish consumers, products which are price oriented and stores conveniently located in the neighborhood. They are offering low prices with their own private label and discounts. The combination of proximity and price is producing many profits to this Spanish company that only few years ago was part of the Carrefour group.

Dia is, with Mercadona and Lidl, the most profitable food retail stores in Spain at the moment. Dia covers the proximity store with different stores in different sizes, “Dia Market” which is a small Supermarket in the city and “Maxi Dia” even a smaller outlet. Also, as all the other players in the food distribution today, they are also focusing on fresh products with “Dia Fresh”. Spain and Portugal continue to be the priority markets for Dia, though they are obtaining good results in Argentina and Brazil. On the other hand, they are selling their stores in France and have reached an agreement with Carrefour to buy their outlets; the French Hypermarket is interested in the good location of these outlets in the city centers.

LIDL is another discounter with a successful format, and has become one of the most profitable food distributors in 2013. In fact, Lidl has experienced the most important increase in sales in 2013 with 7.6% more than in 2012. This German company bases their operations in their own private label which represent approximately 80% of their sales, far ahead than the other two private labels of its competitors, Mercadona and Dia which represent just about 50% of their sales. Their success is evident in their canned food which accounts for more than 36% and fresh food with 30%.

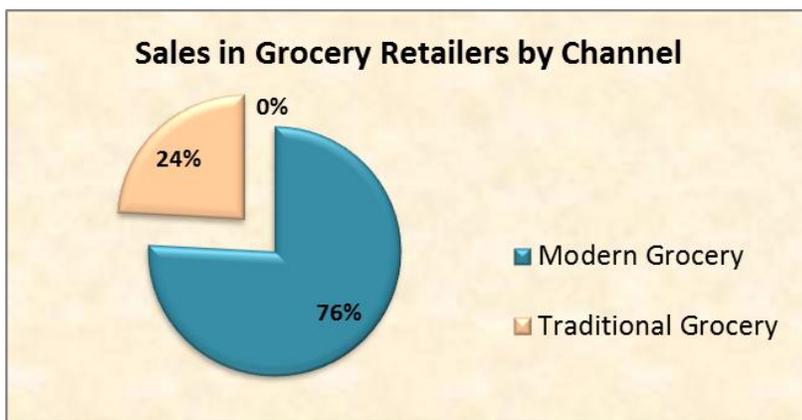
Sales value has increased in the year 2013, however, as shown below, convenience stores and forecourt retailers see an important reduction in their sales while Supermarkets again increased their sales during the period, as we have detailed above. This can be explained because more frequent visits to the groceries can result in that last minute purchase in the convenient store is not required. Also, in a price sensitive society they are not popular because they are more expensive.

Sales in Grocery Retailers by Channel – Value

	2009	2010	2011	2012	2013
Modern Grocery Retailers	95164.82	92215.15	98193.21	90530.52	94614.07
- Convenience Stores	1974.08	1754.80	1734.86	1510.33	1443.58
- Discounters	9344.97	9252.54	9610.46	9251.88	9895.20
- Forecourt Retailers	1742.09	1585.76	1568.06	1366.11	1312.71
-- Chained Forecourt Retailers	1685.79	1535.62	1518.71	1323.28	1270.82
-- Independent Forecourt Retailers	56.30	50.14	49.21	42.83	41.90
- Hypermarkets	20225.61	19526.79	20566.02	17669.65	18088.27
- Supermarkets	61878.21	60095.25	64713.81	60732.68	63874.45
Traditional Grocery Retailers	35828.64	33190.55	33384.33	29763.14	30124.37
- Food/Drink/Tobacco Specialists	29657.74	27582.87	27674.21	24681.57	25030.20
- Independent Small Grocers	3031.59	2717.99	2735.52	2399.53	2349.45
- Other Grocery Retailers	3139.32	2889.69	2974.74	2682.04	2744.59
Total Grocery Retailers	130993.32	125405.70	131577.68	120293.79	124738.44

Source: Euromonitor International – Unit: Million US Dollar

Sales in grocery retailers is dominated by the Modern Grocery stores, however the traditional groceries have a fair representation of 24% of the sales value with 118,000 food stores. Traditional grocery retailers concentrate their sales basically on fresh products. Many of them are associated to more expensive prices of their products; however, they also offer good quality of locally produced products. They are neighboring stores that cannot compete on prices with the modern groceries, therefore, they are adding value by having good quality products, in many occasions free delivery and proximity to the customer. They are favored by the elderly population, that prefer to buy fresh food than the packaged food offered in Modern groceries. Also they are close by stores and they benefit from the new trend of making small purchases but more frequent in order to spend just what it is needed and to avoid food waste.



Source: Data obtained from Euromonitor Int.

The Spanish food market is very diversified. Hypermarkets and supermarkets alone represent more than 57% of total food sales, which represent more than 72% if we add discounter stores. Also, Convenience stores and specialized stores coexist with the traditional corner grocery stores and open-air markets, which are part of the Spanish tradition and very popular. However, the total number of retail outlets has decreased significantly in the last year though less than in 2012. Many small traditional food stores have disappeared during this economic crisis.

Store-based Retailing Outlets by Channel (Units)

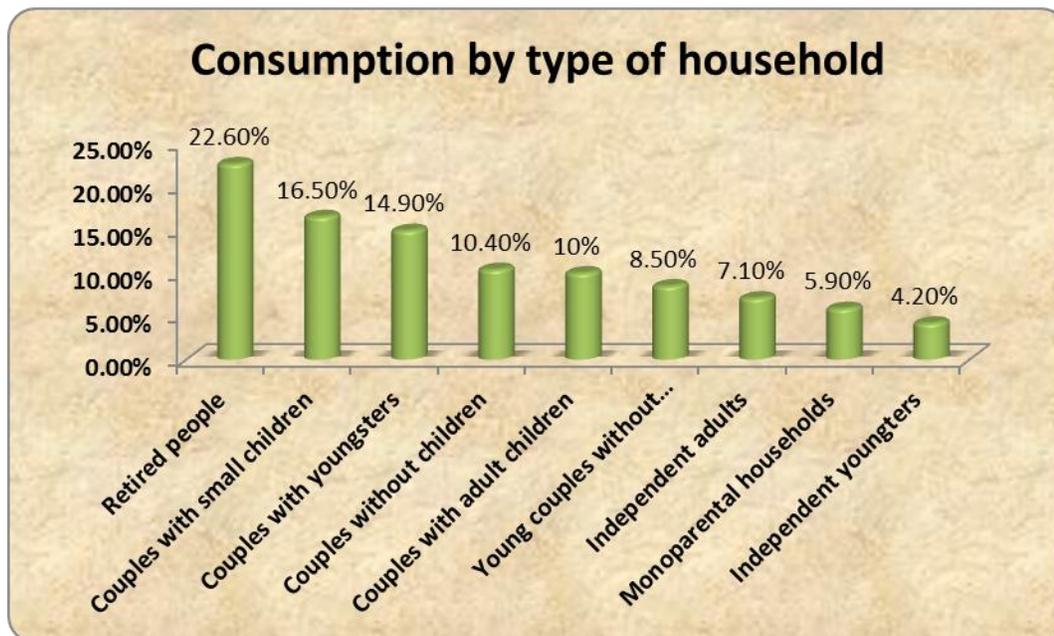
	2008	2009	2010	2011	2012	2013
Grocery Retailers	159,806.00	157,835.00	155,037.00	150,319.00	144,781.00	140,190.00
Non-Grocery Retailers	330,951.00	324,196.00	318,377.00	311,745.00	304,241.00	298,545.00
Total Store-based Retailing	490,757.00	482,031.00	473,414.00	462,064.00	449,022.00	438,735.00

Source: Euromonitor Int.

The retail trends are still very much influenced by the low income available in the families due to the economic crisis, which has left more than 26% of the population unemployed in 2013. Many of those families have all or most of their members unemployed and in many cases their older relatives are

supporting these families. In these circumstances price is an important factor when purchasing products.

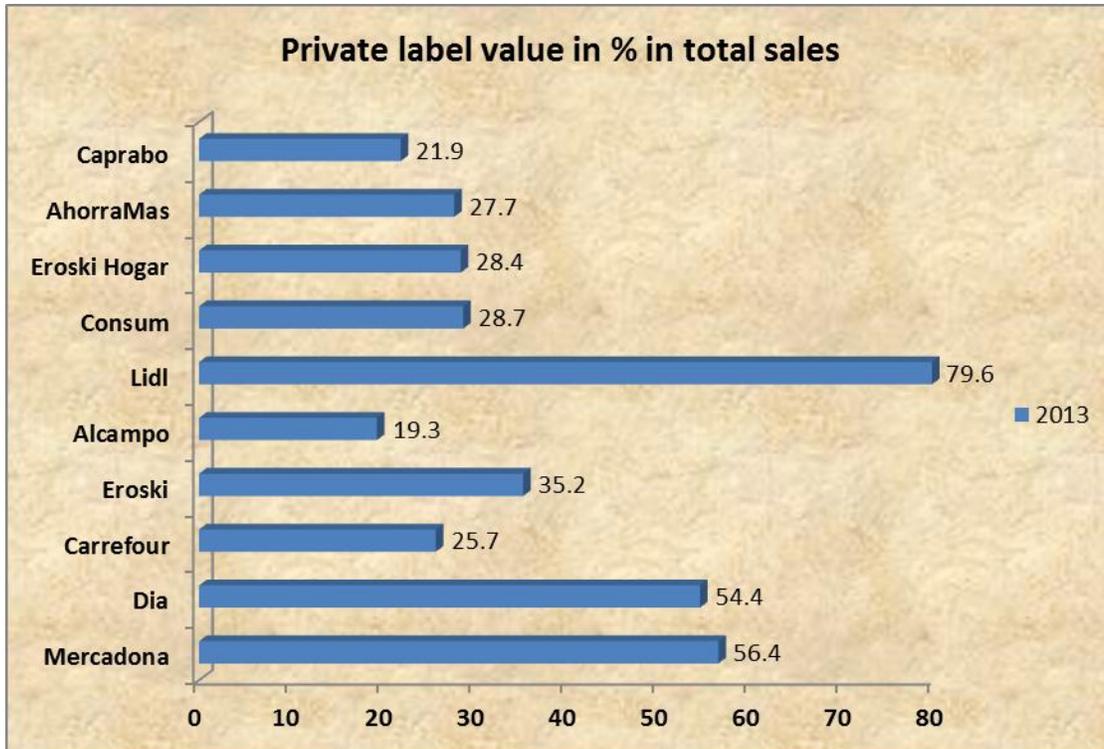
Retired people are at the top of the list reaching 22.6% of the total consumption in Spain in 2013, followed by Couples with young children and couples with youngsters with 16.5% and 14.9% respectively. The highest fall in consumption is seen in young independent people with 6.3%.



Source: Spanish Ministry of Agriculture, Food, and Environmental Affairs (MAGRAMA) 2013

The trend during 2013 has continued to focus on the need to offer good products at low prices, and stores that are at a close distance from their homes. The customer has become more rational than emotional and is buying small quantities as they are needed. This is the reason why Supermarkets and discount stores have found a successful concept providing good prices for quality products in an easily accessible stores which are not too big but not so small, where the customer can find enough variety of products to choose the right one for them.

The private label has become an important player and is covering more and more products, products which are more and more sophisticated than ever before. We have seen that the most successful food stores are those that fulfill the expectations of the customer, which now is quality, good prices, and proximity followed by enough variety of products and discounts. The most profitable stores are those whose private labels represent an important part of their total sales, Mercadona, Dia and Lidl. Private labels have become the key to success in the current environment with many households with financial difficulties who turn to basic products.



Source: Data obtained from Professional Retail

Something to note too is that the younger generation is open to new tastes such as the Indian, Chinese or Mexican which are the favorites. However, they are also very much aware of the diet and demand healthy food presented in packages ready to eat or half prepared.

Product Trends

In recent years the Spanish consumers are increasingly health conscious. There are efforts from public and private organizations to raise awareness about how food and drink has an effect on health. The Spanish Ministry of Agriculture, Food and Environmental Affairs has been very active in promoting Fresh and Healthy Food. These campaigns cover all sort of food, from Fish with the Campaign “Fish product’s Week” to the latest campaign launched in November 2014 to incentivize the consumption of Fruit and Vegetables, emphasizing how the seasonal products grown in the regional area provide quality and also balance to the environment. During 2014, the “Year of the Mediterranean diet”, the Spanish Ministry launched a Campaign “Mediterraneamos”, which promotes this diet among children and youngsters at school, as there is an interest in tackling the problem of obesity in this range of age. In addition to that, they have created a website, www.Alimentacion.es, which promotes a healthy diet and products locally produced. Some of these campaigns are coordinated with Supermarkets and the new modernized Traditional Markets that the Spanish Ministry is also promoting. Through these campaigns the Spanish Ministry has the objective to promote healthy habits in the Spanish population and to support the Spanish Food industry, especially in those sectors most affected by the Russian veto by promoting their fresh products.

This trend to healthy products combined with the economic crisis and low income to spend has had an impact in the way Spaniards look at their diet. The basic products of the Spanish basket in 2013 are meat (22.1%), fish (13.1%), Fresh Fruit (9.3%), vegetables and potatoes (7.9%), bread (5.7%) and oil (2.2%) along with a pastas, semolina, rice or pulses, as well as milk and dairy products. However, we can see that in 2013 the two factors mentioned above are changing their habits, for instance, we see that the consumption of meat is about the same as previous year, however, the highest increases in consumption are in rabbit (+6.3%) and turkey (+9.1%), two products which are low fat and cheaper than other options like red meat. The consumption of fish shows stability with a slight increase, as the consumption of fish in Spain is already very high with 26.8 kilos per person per year. Again, Vegetables and potatoes increased their consumption by 1.8% in 2013 although Fresh Fruits declined by 2.2%.

There has been a lot of media interest in healthy food and also in food intolerances. Programs and articles about Cooking and healthy habits are numerous. The awareness campaign has been so intense that now many Spaniards regard some of their health problems to food intolerance. Spaniards are more conscious about what they eat as ever before, and demand products that are good for their health, although at low prices, due to the economic crisis. Once the Spanish population is being more aware about the food and health relationship, several brands launched campaigns advertising their products, which are a solution to their food intolerance or perceive better for their diet. This is the case of many important brands that have introduced in the market lactose-free, gluten-free or products for diabetics.

According to Euromonitor International, food intolerance increased by 14% in value to reach \$304 million in 2013 and will reach \$453.53 million by 2018.

Sales of Food Intolerance by Category (Value)

Unit: Million US Dollar	2009	2010	2011	2012	2013
Diabetic Food	31.744	31.372	31.124	30.628	30.504
Diabetic Bakery Products	8.556	8.556	8.68	8.928	9.3
Diabetic Confectionery	22.816	22.444	21.948	21.204	20.708
Diabetic Chocolate Confectionery	11.16	11.036	10.664	10.292	10.168
Diabetic Sugar-free Confectionery	11.656	11.532	11.284	10.912	10.54
Diabetic Spreads excl Honey	0.372	0.496	0.496	0.496	0.496
Gluten-free Food	47.616	48.856	49.848	51.212	53.072
Gluten-Free Bakery Products	15.5	15.624	15.5	16.244	17.608
Gluten-free Baby Food	27.528	28.52	29.14	29.884	30.504
Gluten Free Dried Baby Food	8.556	8.68	8.804	9.176	9.424
Gluten Free Prepared Baby Food	15.128	15.872	16.368	16.74	17.112
Gluten Free Other Baby Food	3.72	3.844	3.968	4.092	4.092
Gluten-free Pasta	4.712	4.712	5.208	5.084	4.96

Gluten-free Ready Meals	0	0	0	0	0
	2009	2010	2011	2012	2013
Lactose-free Food	86.552	99.944	119.908	151.528	185.256
Lactose-Free Dairy	71.796	84.692	104.036	134.912	167.648
Lactose-free Ice Cream	7.936	8.308	8.556	9.176	10.044
Lactose Free Baby Food	6.82	7.068	7.316	7.44	7.564
Lactose Free Special Baby Milk Formula	6.82	7.068	7.316	7.44	7.564

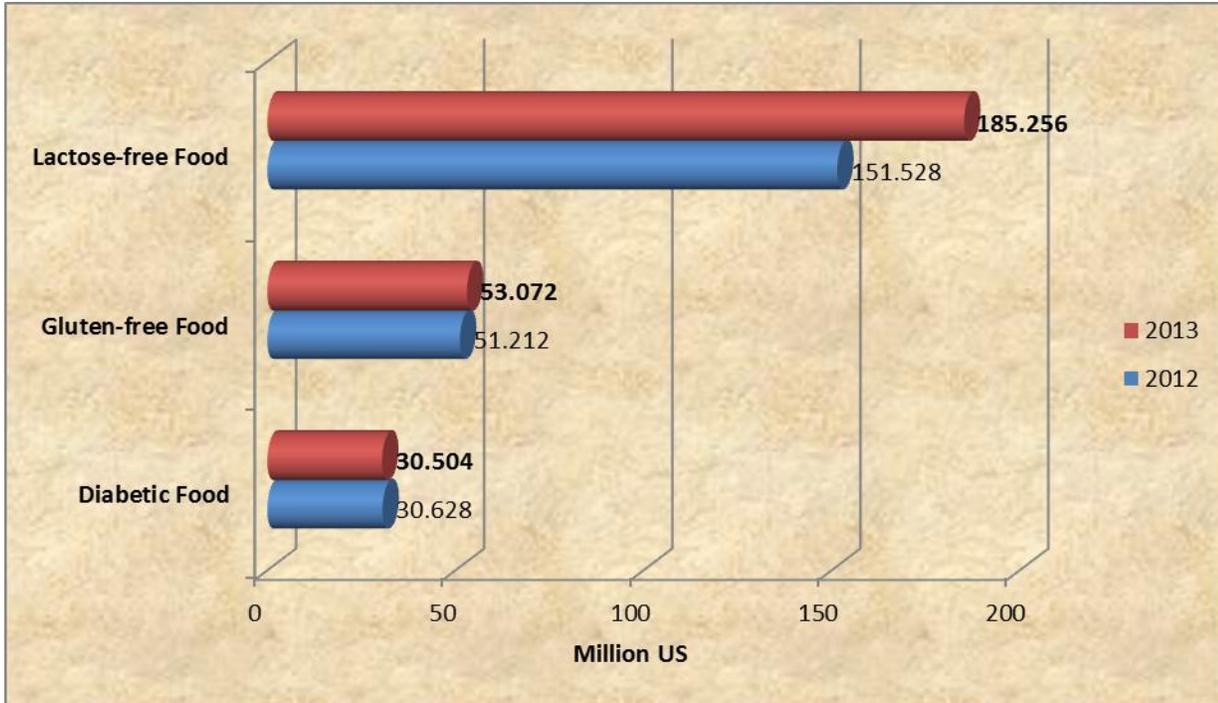
Source: Euromonitor International

Lactose-free dairy is the most dynamic sector and the increase in value in 2013 was 24% reaching \$179.55 million. These figures can only be explained, as Euromonitor mentions in their report, by “the change from being almost exclusively distributed through specialist health food stores to being made widely available in mainstream grocery retailers such as supermarkets and hypermarkets”.

Spain is the third country in the world with more gluten-free products launched during 2013 with 1500 just after Brazil and the United States. Mercadona has created its own private label of gluten-free products and have promoted this as an added value to the product. They have promoted the concept of gluten-free as well as lactose-free through its own private label Hacendado. Others are following in the same direction to compete.

The future for these kinds of products is generally good, although there will be a lot of competition and the improvement of the economic situation will play an important role in the growth of this sector.

Sales of Food Intolerance by Category



Source: Data obtained from Euromonitor International

It is evident from the chart above that the most growing sector during 2013 has been the lactose-free food with the introduction of many new products, while Diabetic food is stabled and the growth in the gluten sector is not significant. Some sources see a new sector in fermented products such as yoghurt.

Another interesting market that has still a potential to grow is the Naturally Healthy packaged food. As it was mentioned above, the growth of this sector will increase as the economic situation improves.

However, even though the current economic situation is not the most favorable to say the least, the sector has been increasing over the past few years.

In general, there is a positive perspective for all those products that have an added value for the health, products that are perceived as natural and healthy or more natural and healthier than their standard counterparts. The trend is to see more and more frequently products with labels mentioning that they have a reduction in salt or sugar. Other products with good prospects are conservative-free or with no artificial additives. In the same category we have those products that use natural colorants such as beta-carotenos instead of artificial colorants because they are “more natural”. All such products are very well received by the consumer especially in dairy products, snacks, drinks, bakery or ready to eat package food. The meat sector is also entering into this trend with meat products with less fat, less salt or less additives.

Sales of Naturally Healthy Packaged Food by Category (Value)

Million US Dollar	2009	2010	2011	2012	2013
NH High Fibre Food	690.69	665.26	696.66	678.79	745.46
- NH High Fibre Bakery Products	673.45	648.64	678.73	661.89	728.30
-- NH High Fibre Biscuits	110.36	106.53	112.59	110.81	122.09

-- NH High Fibre Bread	498.31	478.26	498.31	483.75	531.46
-- NH High Fibre Breakfast Cereals	64.635	63.84	67.83	67.33	74.61
- NH High Fibre Noodles	0	0	0	0	0
- NH High Fibre Pasta	5.56	5.18	5.97	6.063	6.65
- NH High Fibre Rice	11.67	11.43	12.09	10.96	10.64
NH Honey	132.46	123.55	133.85	126.03	131.53
NH Oils and Fats	1767.94	1693.35	1757.93	1755.81	1966.80
- NH Olive Oil	1767.94	1693.35	1757.23	1755.17	1966.00
- NH Regular Spreadable Oils and Fats	0	0	0.69	0.64	0.66
NH Snack Bars	22.10	21.54	23.21	22.96	25.13
- NH Fruit Bars	0.27	0.53	0.83	1.41	1.59
- NH Granola/Muesli Bars	21.82	21.01	22.37	21.54	23.54
NH Sour Milk Products	3.75	3.72	3.89	3.612	3.72
NH Soy Products	351.39	371.33	406.29	371.39	378.78
- NH Non-Dairy Milk Alternatives	324.56	333.03	360.14	331.27	339.28
-- NH Soy Drinks	10.28	11.30	13.34	13.93	15.82
	2009	2010	2011	2012	2013
- NH Soy-based Dairy Alternatives	25.85	37.24	44.75	38.7	37.90
-- NH Soy Milk	218.09	222.77	237.69	212.85	212.8
-- NH Soy-based Chilled and Shelf Stable Desserts	9.03	8.37	8.06	7.35	7.58
-- NH Other Non-Dairy Milk Alternatives	96.18	98.95	109.11	104.49	110.65
-- NH Soy-based Yoghurt	16.81	28.86	36.69	31.34	30.45
- NH Soy-based Meat Alternatives	0.83	1.06	1.39	1.41	1.46
-- NH Soy-based Frozen Meat Substitutes	0.41	0.53	0.83	0.90	0.93
-- NH Soy-based Ready Meals	0.41	0.53	0.55	0.51	0.53
Other NH Frozen Meat Substitutes	0	0	0	0	0
Other NH Ready Meals	0	0	0	0	0
NH Sweet and Savoury Snacks	607.84	577.48	597.83	562.44	586.53
- NH Fruit Snacks	54.90	54.13	57.82	54.69	53.06
- NH Nuts	552.94	523.48	540.01	507.74	533.46
Naturally Healthy Packaged Food	3576.05	3456.13	3619.56	3520.92	3838.11

Source: Euromonitor Int.

As oppose to avoid ingredients that are seen by the customer as damaging their health, we have another type of products which also should have good prospects, which are those products that add value to the product by adding an ingredient that is good for the health. This is the case of milk with vitamins added or other products with minerals.

Another sector that will see growth in the future is the ready meal products. There are some factors that are helping to develop this area of business, which among others are the hectic life with no time to cook, a new generation that is not used to cook, and look for products that are ready to eat as well as healthy. However, the volume of these products is still quite insignificant in Spain compared with surrounding countries like the UK or France. The wide experience of the American companies in this kind of products should be an advantage when these products become more widely available in the retail distribution with more space in their shelves. At the moment, according to Euromonitor International the total sales value is \$2,534 in 2014 and the highest growth has been in Prepared Salads that have seen an increase of 4.5% in the last year. The retail volume sales increased by 1% in 2014.

Also, Organic food is growing, although the high prices are still a problem for their growth. However, according to the AECOC Shopper view, 35% of the Spanish population include this type of product in their basket and the consumption has increased 7% between 2011 and 2013, which is a good trend taking into consideration the extremely difficult situation many households are facing in recent years. However, the consumer of this kind of products is a customer worried about the environment and a person who tries to have healthy habits. Once the economic situation improves, people who now cannot afford to buy organic products will switch to them as they see their situation improving.

Finally, there is a constant trend during 2013 and has continued in 2014 which are fresh food products. Supermarkets have adapted their stores to respond to the demand of the consumer of this type of products. Many of them are replicating the concept of the traditional market in their stores with fresh fruit unpacked, or areas where you are attended by a butcher or a fishmonger who can prepare, cut and clean the products for the customer like in a traditional market stall. The reason why these products are in demand can be found again in the financial problems families have to cover their basic needs. Consumers are returning to basic products, to the traditional recipes that were cheaper than more elaborated and processed food that was the trend before the crisis. Also, there is a trend to support the local economy in order to find a way out of the crisis and all the efforts towards the support of the local economy is well received by the consumer. Products are advertised as produced locally and this is perceived by the consumer as a sign of quality and freshness. In fact, the traditional groceries that are surviving are those who focus their sales on fresh food.

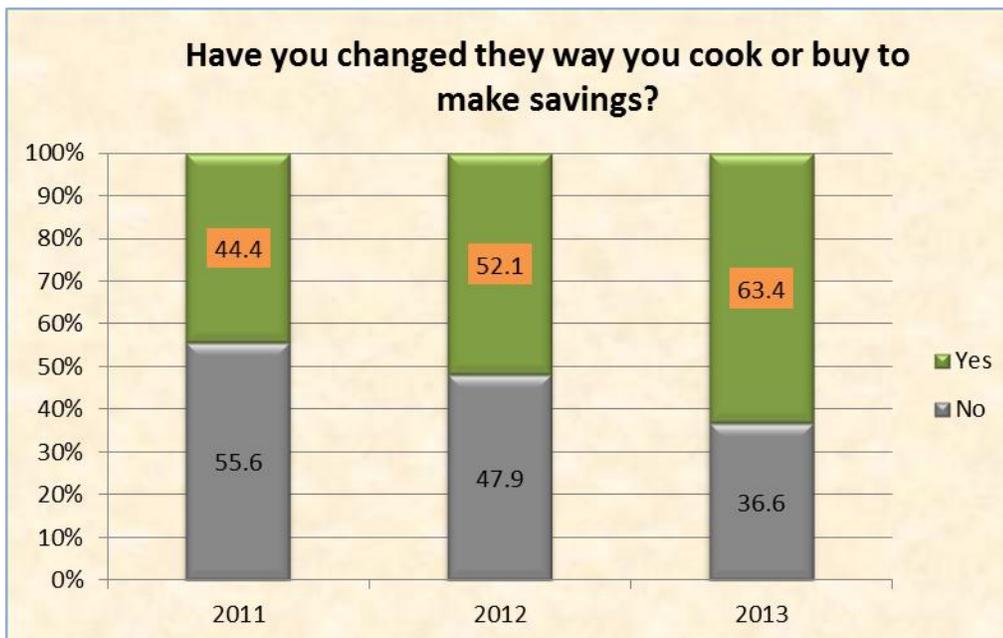
Shopping habits

The Shopping habits of the Spanish consumer have changed to adapt the budget to the difficult financial situation many households have in order to cover their needs. The consumers who stick to a shopping list have been increasing steadily for the last few years. Experts recommend having a shopping list and sticking to the list in order to avoid looking at all the shelves of the store and incur in extra expenditure. This habit is generalized now as the graphic below shows.



Source: Data obtained from MAGRAMA 2013

Also, there is a significant increase in the way consumers buy their food or even in their cooking habits. This change is more than 10% higher than in 2012, this could be a consequence of the increase in the VAT that has forced consumers to make efforts to rationalize their purchase habits even more and adapt their cooking to more basic products.



Source: Data obtained from MAGRAMA 2013

Consumers are visiting markets and supermarkets more often, once or several times a week, and spending less in each visit. As opposed to doing their shopping in one major monthly trip as they did before the crisis. This is benefiting mid-size urban supermarkets in detriment of hypermarkets and big supermarkets outside the cities. Discounters lost market share in 2012 but they have recovered part of it by offering a new renovated face in 2013.

Supermarkets, primarily Mercadona and hypermarkets such as Carrefour, Eroski or Alcampo that have reinforced their supermarket lines in the city centers, are offering competitive prices for good quality products. As a result of the current purchase pattern, the number of medium-sized (1,000-2,500 square meters) supermarkets is still growing. Consumers find this size comfortable and the range of products offered is wide enough to meet all the needs without having to drive to the outskirts. It also avoids unnecessary non-food purchases.

However, it is interesting to see a change in the main reason to choose a food store, which has changed from Price in 2012 to Quality in 2013 as the first factor to choose a food store. This consumer is more demanding now and price is not enough to attract a customer to a particular food store, probably the development of private labels has been a factor for this change. Private labels are being presented in a more attractive way and are offering products with added value, consumers are demanding quality at a good price which is the second factor, and proximity comes in a third place. These are the main factors that determine their shopping store, however, the variety of products, products with added value, attention to the customer, variety of brands, sale promotions, operating hours, parking are also factors.



Source: Data obtained from Ministry of Agriculture 2013

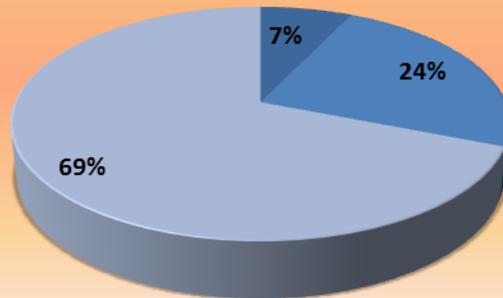
Another important trend in the shopping habits is the strong and solid position of the own private labels of food stores such as Mercadona, Dia or Lidl. The consumer has been forced to make savings and they found a way by choosing private labels as oppose to brand names. The perception of these labels have changed a lot during the last years and they are not perceived as labels with less quality than brand names, in fact, the consumer is proud of this purchase because it is considered an intelligent purchase, the customer obtain good value for money.

At the same time, private labels are being reinforced with more diversified products, more space in their shelves, entering into the healthy food with products with added value and presented in a more attractive way. All these have produced a loyal customer with 43.7% of consumers who buy many products of these own private labels of the stores where they buy and a further 45.1% that declare to buy some products of these labels. This means that the private label is consolidated in the market, although the percentage has fallen by 4.3% compared with previous year. This could be because important brands are fighting to maintain and regain quota at the expense of their margins. Other important brands are maintaining their quota because they are adding innovation and they are considered as excellent quality. There is a risk that small brands will disappear if they continue to reduce their margins.

It seems that this trend will continue for the foreseeable future, even more when the loyalty of the Spanish consumer is high and the stores control the space of their own shelves and, therefore, can promote their own labels at their convenience.

Do you always buy the same brand of consumer products?

- I prefer to buy cheaper products even if the brand is unknown
- No, within certain brands I look for the cheaper
- Yes, I always buy the same brand



Source: Data obtained from MAGRAMA 2013

Finally it is important to note that sales on-line have continue to rise, however, the increase is not very significant yet compared with on-line sales of other categories of products other than food. There are some reasons for this; the first one is that grocery retail outlets have not promoted this channel due to the complexity of delivering fresh and frozen products. Second, the consumer is visiting the store more often than in previous years and it does not see the benefit when the shopping basket is not big and they are charged for the delivery.

Evolution of Internet shopping habits

	2004	2005	2006	2007	2008	2010	2011	2012	2013
YES	2,7	3,5	4,3	5,4	4,7	7,8	8,5	9,5	10,4
NO	97,3	96,5	95,7	94,6	95,3	92,2	91,5	90,5	89,6

Source: MAGRAMA 2013

However, it seems that in 2014 food stores are starting to see the e-commerce as another profitable channel for their products and are revamping their websites to make easier for the customer to navigate and order products. Also, as the economic situation of families improves they will space their visits to the stores and the internet option will be more attractive. The Spanish society is well prepared to use this alternative channel to do their shopping as smartphones are very much in the day-to-day life and internet connections are widely available to most of the population. Therefore, this way of shopping will increase in the future.

Farmers and, in particular, farmers of organic food are finding that internet is a good way to put their

products in the market and they deliver the products they produce directly to the consumer. It is not uncommon these days the delivery of seafood straight from the coast to the customer.

Information for U.S. exporters

First of all, American exporters need to know that in 2011 the EU “Food Information to Consumers” Regulation 1169/2011 was approved and it is in force since December 13, 2014. This new labeling of products is even stricter than previous regulation with the introduction of new obligations.

The purpose of this regulation is to unify and modernize the regulation previously in force with the aim to provide genuine, clear and complete information to consumers to allow them to make informed decisions. What this regulation aims is to avoid any kind of misinterpretation by the consumer about the properties, ingredients or qualities of the products they buy. The EU consumers are concerned about their health and they want to have all the information in order to choose the products that respond to their needs and values.

It is not only that genetically modified ingredients must be labeled, products which are not well received by consumers in general, this regulation goes far beyond that and set up very strict obligations about the information that must appear in the label. You can find information about the new labeling obligations in the following link of the USDA <http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/eu-labeling-requirements/>, however, we will reproduce here the most important changes which are as follows:

- Nutrition labeling becomes mandatory on December 13, 2016
- Minimum font size for printing mandatory information
- New format for allergen labeling (allergens must be highlighted in the list of ingredients – “allergen boxes” are no longer allowed)
- Voluntary front-of-pack labeling has to follow a set format
- Country of origin labeling is extended to more products
- Durability date AND “frozen on” date must be indicated on frozen products
- “Use by date” must be indicated on individual pre-packed portions
- Specific treatments such as “refrozen”, “concentrated”, “smoked”, “powdered” must be added to the product name
- Alcoholic strength by volume for beverages containing more than 1.2 percent by volume of alcohol must appear in the same field of vision as the product name
- Proteins added to meat products that are of a different animal origin must be declared in the list of ingredients
- Presence of added water must be declared on meat and fishery products if the added water makes up more than 5 percent of the finished product
- Vegetable origin of oils and fats must be indicated in the list of ingredients

In addition, acceptable colorings and additives may differ from those used to produce product for the U.S. market. For more information on food additives regulation please see:

<http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/food-additives>

Spain generally applies EU rules and regulations. However, there are subtleties that exporters should learn about before exporting to the Spanish market. For more information, we invite potential U.S. exporters to contact the Office of Agricultural Affairs in Madrid at AgMadrid@fas.usda.gov for additional sector-specific information.

In general terms, U.S. exporters already exporting to other EU Member States will likely be meeting most of the requirements for exporting into the Spanish market. The U.S. exporter needs to make contact with an importer and/or distributor for his product. Typically, food products are imported directly by an importer, broker and/or wholesaler or distributor.

The following documents are required for ocean or air cargo shipments of foodstuffs to Spain:

- Bill of Landing and/or Airway Bill
- Commercial Invoice
- Phytosanitary Certificate and/or Health Certificate when applicable
- If your product is or contains plant or animal products, it will require a phytosanitary or health certificate issued by the competent U.S. authority. Also, if you are exporting animal products, your plant has to be approved to export into the EU.
- Import Certificate
 - Most food products require an Import Certificate issued by the competent Spanish authority. However, the Import Certificate is obtained by either the Spanish importer and/or the agent involved in the business and is intended for tariff classification purposes.

For more information on food standards and regulations, please consult the Food and Agricultural Import Regulations and Standard Report for Spain and the EU-27 available at: <http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/fairs-reports>

Also, please check the U.S. Mission to the European Union webpage at <http://www.usda-eu.org>, which will guide you on exporting into the EU.

Advantages and Challenges for US Products in the Spanish Market

Advantages	Challenges
Spain's food industry relies on imported ingredients, many from the U.S.	Spain's financial situation, two main effects on retail: sinking domestic demand, lack of credit for companies.
Tourism is a strong and ever-growing sector that provides retail, food and drink sales.	Lack of consumer awareness of U.S. brands and varieties of U.S. products.
Good image and reputation of U.S. products.	Competition from neighboring EU countries, where tastes and traditional products may be well known.
Good network of agents and importers to help get product into the market.	U.S. exports face higher transportation costs and difficulties in shipping mixed or smaller container loads.
Consumers are increasingly health conscious, demanding products not sufficiently present in the market.	EU labeling, traceability, and packaging laws.
Distribution structure is modern and many companies cover both Spain and Portugal.	High import tariffs and import regulations impose a price disadvantage on non-EU based companies.
Food products in the market are becoming more diversified. Consumers are becoming more open, creating opportunities for new and foreign products.	High marketing costs (advertising, discounts, etc.)

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Cash and Carry, Hypermarkets or Super Centers, Supermarkets, Club and Warehouse Outlets

The industry is seeing many changes in the past years to adapt to the new shopping habits of the consumers. This is affecting the way businesses are managed and developed in all types of stores, Cash and Carry, Hypermarkets, Supermarkets or traditional groceries.

First of all, it is to be noted that the sector has seen the arrival of a new competitor, the American Wholesaler COSTCO that started in May 2014 in Seville. Costco is introducing a new concept in Spain, the customer will need to pay for membership in order to access to the store. The Spanish consumer is used to free-membership for the only reason of being a retailer or a professional, such is the case of Makro. In other cases, consumers have a fidelity card to access to discounts; however, this concept is completely new. Despite the cost of the membership, Costco has already got more than 16,500 members in Seville. As many other stores, they offer a variety of brands as well as their own private label "Kirkland Signature", the food and drink products represent about 60% of their catalogue. They have a plan of expansion in Spain and will open other stores in Madrid, Barcelona or Valencia. The presence of this American business can contribute to the introduction of new American products in the Spanish market, and therefore, an opportunity for American companies to introduce their products.

There is an evident effort from all grocery stores to attract customers to their outlets. Some are opting for giving a better customer service through personal attention to customers with customer managers who can visit customers in their own business or provide a speedy delivery of products, like Makro. As mentioned previously, fresh products is a trend and according Makro's Managing Director they need to provide their customers with a wide variety of fresh products. With that in mind, Makro is reinforcing the local production and is working on contracts with local farmers to provide local products for their centers. On the other hand, Makro is also opening stores inside the town, closer to their customers. These changes are producing good results and it seems that while the Cash and Carry is losing market share, Makro is maintaining and it could even increase their quota by the end of 2014. Others such as Miquel Alimentacio Grup is focusing their strategy in the foodservice.

The general trend is that the customer is going to stores more frequently and the expenditure is lower. Fresh products are having good results and stores have turned their eyes to local producers to save money in transport. The Cash and Carry is suffering a lot during this crisis and has seen how these types of stores are being reduced year after year since 2008.

The main companies in the Cash and Carry sector are Makro, Mikel Alimentacion Grup, Grupo el Arbol, Spersol Spain, H.D. Covalco Group, Semark AC Group, Hiper Usera, Manuel Barea Goup, Hermanos Ayala Sousa, Alimentacion Peninsular or Misgrave Spain among other. In total they have 629 stores in 2013.

Hypermarkets like the French company CARREFOUR, which despite all problems is the second in sales with a market share of 7%, just after the Supermarket Mercadona, is also targeting a new segment of customers oriented basically by price with Supeco The Cash of the Family that looks like Cash and Carry but much smaller in space. Also, they have seen that loyalty cards are being well received by the consumer and have targeted different segments of consumers offering VAT discount on certain products that they want to promote, like the fresh food. Carrefour is also diversifying their concept of store to respond to the need of proximity with Carrefour Express.

EROSKI Group is the third most important grocery store with 5.1% of market share in 2013. However the group is facing financial problems and is undergoing many changes in the past few months. The group operates hypermarkets as well as supermarkets, of which Caprabo represents about 24% of them. The latest results are not positive for the group and there is already an agreement to sell Caprabo and other supermarkets which are under the brand of “Eroski Center” and “Eroski City”.

Caprabo has undergone many changes in order to resist the strong and leading position of Mercadona and has launched a fidelity card. Fidelity cards have increased their importance and can be a factor for customers to choose a grocery in 2014. However, there have been other changes during 2014 in Caprabo, like the focus on fresh products with 20% more space in the stores for these products, and the return to the values of the traditional market in the stores. They are also putting an emphasis on healthy products. After all these changes, it seems that they are getting positive results and Caprabo is declaring important increases on sales which reach as much as 34% more sales in bakery products or 20% increase on fruits and vegetables.

The hypermarket Alcampo from the Auchan Group has been able to maintain their sales and has even increased this by 1%.

It is interesting to note also that the consumer believe the stores that offer the best variety of products are Carrefour, Alcampo or Eroski while the best in terms of value for money are Mercadona, Lidl and Dia.

The comments about the most important Supermarkets will not be reproduced here as they are in the section Retail Trends.

Retail Outlets – Company Profiles

Retail Organizations and Outlet Types	Ownership (Local or Foreign)	Sales 2013 \$ Million	Number of Own Outlets/ Associated Outlets	Location	Type of Purchasing Agent
MERCADONA, S.A. Supermarket	Spanish	22,500	1,430/0	Nationwide	Importer, Direct
GRUPO CARREFOUR, S.A. Supermarkets, Hypermarkets	French	10,300	285/100	Nationwide	Importer, Direct
GRUPO EROSKI					Importer,

Retail Organizations and Outlet Types	Ownership (Local or Foreign)	Sales 2013 \$ Million	Number of Own Outlets/ Associated Outlets	Location	Type of Purchasing Agent
Supermarket	Spanish	7,500	1,103/447	Nationwide	Direct
DISTRIBUIDORA INTERNACIONAL DE ALIMENTACION, S.A. (DIA) Hard Discount	Spanish	5,600	1,615/1,310	Nationwide	Importer, Direct
ALCAMPO, S.A. - GRUPO Hypermarkets	French	4,550	55/0	Nationwide	Importer, Direct
LIDL SUPERMERCADOS, S.A.U. Hard Discount	German	3,150	526/0	Nationwide	Importer, Direct
HIPERCOR, S.A. Supermarket	Spanish	2,900	42/0	Nationwide	Importer, Direct
CONSUM, S. COOP. Supermarket	Spanish	2,250	428/182	Nationwide	Importer, Direct
AHORRAMAS, S.A. - GRUPO Supermarket	Spanish	1,760	229/0	Madrid, Castilla La Mancha	Importer, Direct
MAKRO AUTOSERVICIO MAYORISTA, S.A. Wholesaler	German	1,580	N/A	Nationwide	Importer, Direct

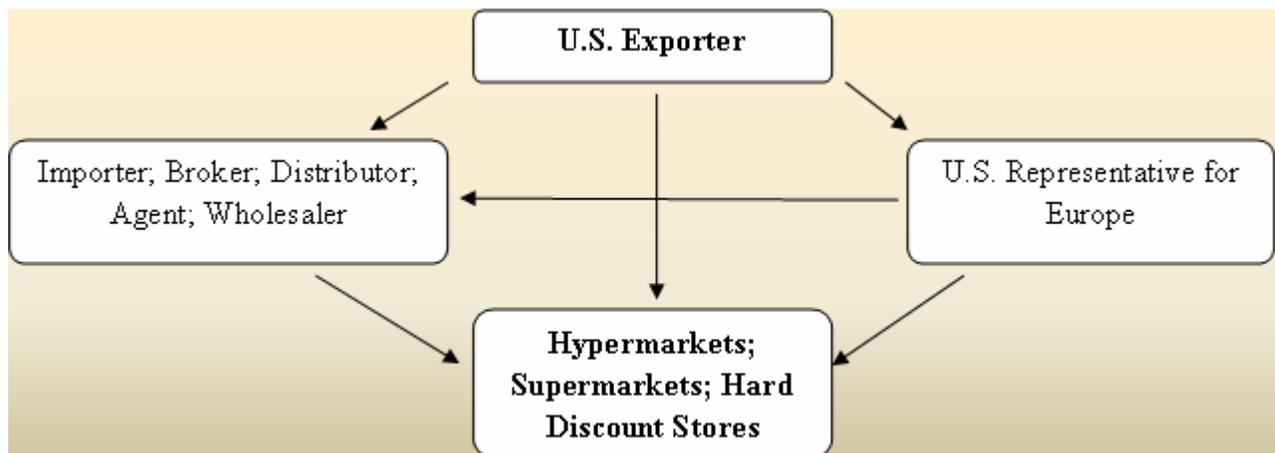
*Estimated

Entry Strategy

Success in introducing products in the Spanish market normally requires local representation and personal contact. A local representative can provide up-to-date market intelligence, guidance on business practices and trade related laws, sales contact with existing and potential buyers, and market development expertise. The Office of Agricultural Affairs in Madrid maintains listings of potential importers and is developing sector-specific information to help you introduce your product in Spain.

A directory of European importers is available online at: <http://www.american-foods.org/index.php>
European importers of U.S. food and beverages are listed by product categories and company/country index.

Market Structure



In the supermarket sector, products are imported either by an importer, broker or agent, a wholesaler and/or distributor. Some products enter via other European Union ports either through a European importer or through the U.S. representative for Europe for that specific product.

Product representatives are better positioned to promote to retailers and consumers since retailers, as a general rule, do not promote specific products within their facilities. Retailers will, however, sell shelf-space, which is very expensive in the Spanish market. In order to cut costs, some retailers are importing directly from the supplier. In the case of retailers whose ownership is primarily foreign (foreign partnership), such as Carrefour (French), Auchan (French) and Lidl (German) many of the products, in particular specialty products for sale, are from their respective home country. It is important to note that Spanish distributors have nationwide distribution in Spain and, in most cases, in Portugal.

While hypermarkets and larger sized, supermarkets control a large share of sales, small sized supermarkets are becoming ever more popular due to their proximity to the consumer (generally located within walking distance of residential and/or business areas).

Major discount chain stores have expanded considerably in Spain, with a steady flow of DIA and Lidl openings, particularly since the financial crisis started with more consumers more sensitive to price. These outlets are much smaller than hypermarkets and only sell food and cleaning products. This type of store provides little service to the consumer, which is reflected in the lower final product prices.

B. Convenience Stores, Gas Marts, Kiosks

In Spain, convenience stores are usually associated with gas stations (90 percent of the total market share).

However, “urban” convenience stores represent the remaining 10 percent of the total market share.

Convenience stores are popular for last minute purchases and the sales through this kind of stores have largely benefited from the increasingly busy lifestyle. The advantages pointed out by convenience store

include their opening hours (open 24 hours). However, these stores are going through a rough time due to their high prices. Spanish consumers are more and more price sensitive and long hours are not a determining advantage any longer, even more when the opening hours of groceries is more flexible and so many stores are located in the proximity of their houses. With more unemployed people, the time constraints drop, and so convenient stores become less relevant. The convenience stores have seen a decline since the beginning of the economic crisis in 2008 and probably will not see a recovery until the economic indicators show steady positive signs.

Convenience stores generally had sufficient storage space to import directly, so they almost always buy their products from importers, wholesaler and/or distributors. However, it seems that hypermarkets like Carrefour have found a complement to their business in the gas station’s convenience stores. Carrefour has established an agreement with CEPSA and by the end of 2014 they expect to open 70 to 100 stores selling their own private label, drinks, ready to eat packages, canned food or bakery.

Another major hypermarket, El Corte Ingles Group, is reinforcing their agreement with REPSOL, the other major petrol company under their brand “Supercor Stop & Go”.

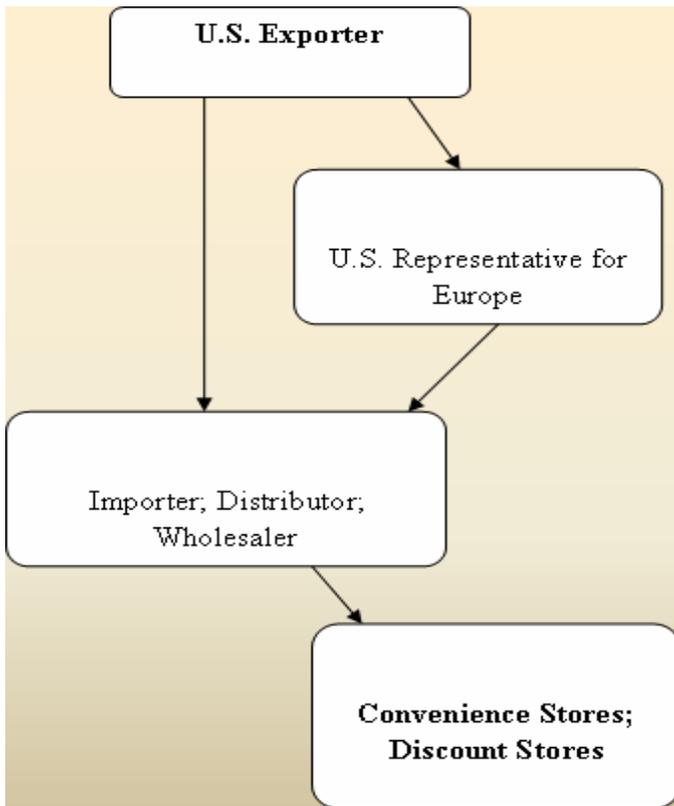
Convenience Stores – Company Profiles

Retail Organizations and Outlet Types	Ownership (Local or Foreign)	Sales 2013 \$ Million	Number of Own Outlets /Franchise	Location	Type of Purchasing Agent
DISA PENINSULA, S.L.U. Gas station	Spanish	460	226/100	Nationwide	Importer, Wholesaler
TIENDAS DE CONVENIENCIA, S.A (Opencor) Urban Convenience Store	Spanish	420	161/0	Nationwide	Importer, Wholesaler
REPSOL-CAMPSA Gas station	Spanish	340	947/2,506	Nationwide	Importer, Wholesaler
AREAS, S.A. Highways	Spanish	140	173/0	Nationwide	Importer, Wholesaler
CEPSA CONVENIENCIA, S.A. Gas station	Spanish	130	2/905	Nationwide	Importer, Wholesaler
BP OIL ESPANA, S.A. Gas station	UK	110	120/60	Nationwide	Importer, Wholesaler
GALP ENERGIA					

ESPANA, S.A. Gas station	Portuguese	102	625/1	Nationwide	Importer, Wholesaler
GESPEVESA Gas station	Spanish	72	37/0	Nationwide	Importer, Wholesaler
GRUPO VIPS – SIGLA, S.A. Urban Convenience Store	Spanish	52	291/10	Nationwide	Importer, Wholesaler
SERVICIOS INTEGRALES OPEN 25, S.L. Urban Convenience Store	Spanish	10	18/0	Nationwide	Importer, Wholesaler

*Estimated

Market Structure



C. Traditional Markets

Traditional corner grocery stores are composed of corner grocery stores, fresh and regional markets. Wholesalers are the main suppliers for traditional markets. In this sense, large wholesalers generally import directly but smaller wholesalers, whose main customer is the traditional market, do not import

and buy the product through other local importers and/or larger wholesalers.

Usually, these types of stores are traditional family owned and located within residential and/or neighborhood areas. Although they are small in size, they usually carry a diversified range of food and cleaning products. Sanitary conditions are good and all of them have a small refrigeration area.

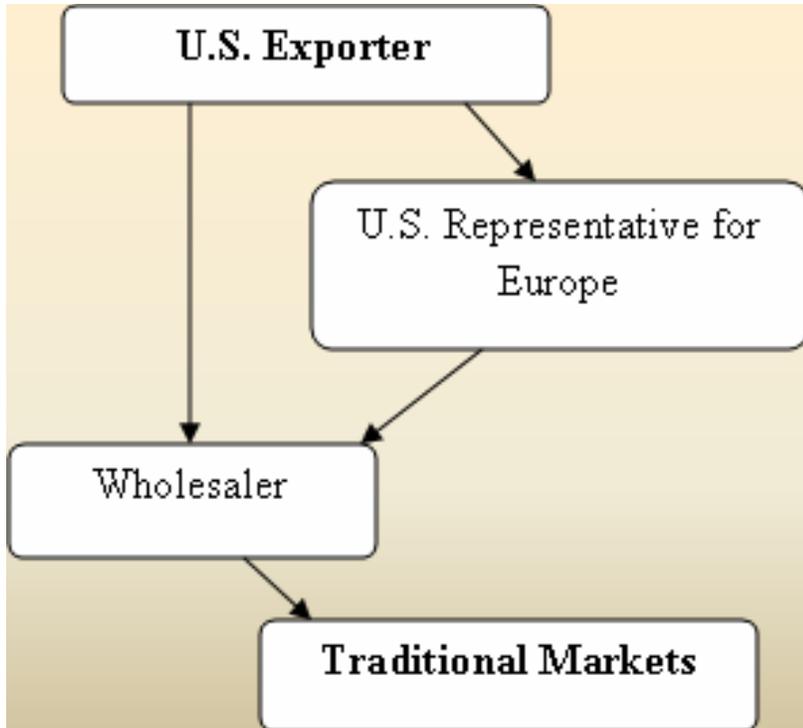
Although their prices are usually higher than in any other type of outlet, they are quite popular for their high quality fresh produce and their proximity. Because these stores are part of the neighborhood, some of them deliver products ordered by telephone. Their main suppliers are the cash-and-carries, which are warehouse type supermarkets and/or small wholesalers who visit once a month to take inventory and restock.

Open-air markets are also very popular. They sell mostly fresh produce, fresh meats, cheeses, traditional products, tree nuts, edible dry beans, and are only open in the mornings. Their suppliers are the wholesale markets for fresh produce. Regional open-air markets are also very popular. They take

place either once a week, once a month or, in some particular cases, once a year, and usually run on weekends. Because they are so popular and traditional, they are located in the vicinity of major cities and throughout rural areas. Fresh produce and regional foods such as cheese, bread, cookies, etc. are the most common products marketed at these fairs. They also sell other products that can be found at a flea market.

Of additional interest are some "specialized food stores" – gourmet type stores - which are located in the major cities. These stores specialize in particular in high quality food products such as cheese, meats, diversified types of bread, wines, regional products, etc. These stores may be compared to Deli stores and sell not only local delicatessen food products but also import some of the products. These stores are usually expensive due to the diversity and type of products presented.

Market Structure



SECTION III. COMPETITION

Competitive Situation Facing U.S. Suppliers from Domestically Produces Goods and Imported Goods			
Product Category (thousand metric tons; million USD)	Major Supply Sources in 2013 (in value)	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Frozen Fish <i>Imports: 283</i> <i>Value: \$849</i>	1. Portugal - 7% 2. France - 7% 3. Curacao - 5% 8. USA - 4%	Other major suppliers offer high quality fish products at competitive prices.	Large competition from local suppliers and producers. Spanish domestic consumption and exports surpass local supply.
Almonds <i>Imports: 65</i> <i>Value: \$397</i>	1. USA - 90% 2. Australia - 3% 3. Germany - 2%	Competition from other supplying countries is limited, as Spanish demand for almonds is very high and production in other EU countries is not enough to satisfy demand.	Spain produces almonds, mostly used roasted as a snack, due to its organoleptic properties. U.S. almonds are used in the confection industry, mainly for Christmas traditional nougat.

Walnuts <i>Imports:22</i> <i>Value:\$159</i>	1. USA - 55% 2. France - 18% 3. Chile - 9%	France is a traditional supplier of walnuts. Chile is increasing its presence in the Spanish market	Spain has a significant production of high quality walnuts.
Pistachios <i>Imports:8</i> <i>Value:\$86</i>	1. USA - 44% 2. Germany - 34% 3. Iran - 19%	Germany is the main entry point for U.S. and Iranian pistachios to the EU. Pistachios are then re-exported to other member states.	Pistachio production in Spain is very limited.
Sunflower seeds <i>Imports:321</i> <i>Value:\$252</i>	1. France - 55% 2. USA- 13% 3. Bulgaria - 9%	Growing competition from China, Argentina and Israel for confectionary. Possible implementation of lower cadmium levels.	Spain production of sunflower seeds for confectionary is not sufficient to meet demand.
Pulses <i>Imports:221</i> <i>Value:\$242</i>	1.USA - 24% 2. Mexico - 21% 3. Canada- 15% 4. Argentina - 12%	Strong competition from Argentina, who largely increased their presence in recent years, and Canada, a traditional supplier to Spain.	Spain is a traditional consumer of pulses and its local production is not sufficient to fulfill internal demand. Imports from the United States continue to rise after significantly decreasing in 2009.

SECTION IV. BEST PRODUCT PROSPECTS

Products Present In The Market That Have Good Sales Potential

- Tree nuts, particularly almonds, walnuts and pistachios
- Peanuts
- Pulses
- Sunflower seeds
- Fish and Seafood, fresh and frozen

Products Not Present In Significant Quantities But Which Have Good Sales Potential

- Functional and health food
- Free-from products (lactose-free, gluten-free)
- Food ingredients
- High value beef meat (only Non-Hormone Treated Cattle)
- Specialty foods, snack foods and sauces
- Beverages (wine and beer) and distilled spirits

- Organic Products
- Pet foods

Products Not Present Because They Face Significant Barriers

- Red meat and meat preparations (hormone ban)
- Poultry (sanitary procedures - chlorine wash)
- Processed food (with GMO ingredients)

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to Spain, please contact the Office of Agricultural Affairs in Madrid at the following address:

Foreign Agricultural Service American Embassy, Madrid C/ Serrano, 75

28006 Madrid

Spain

Tel.: +34-91 587 2555

Fax: +34-91 587 2556

Email: AgMadrid@fas.usda.gov

Web: <http://madrid.usembassy.gov/about-us/fas.html>

Please email the Office of Agricultural Affairs in Madrid for more information. Importer listings are available from the Agricultural Affairs Office for use by U.S. exporters of U.S. ingredients. Recent reports of interest to U.S. exporters interested in the Spanish market can be accessed through the [FAS website](#).

Additionally, a list of trade associations and useful government agencies is provided below:

Trade Associations:

FIAB- Federación de Industrias de Alimentación y Bebidas (Spanish Federation of Food and Beverage Industries) www.fiab.es
fiab@fiab.es

FEHR – Federación Española de Hostelería (Spanish Federation for HRI Sector) www.fehr.es
fehr@fehr.es

ASEDAS – Asociación Española de Distribuidores, Autoservicios y Supermercados
(Spanish Association for Distributors and Supermarkets)
www.asedas.org direc.general@asedas.org

ANGED – Asociación Nacional de Grandes y Medianas Empresas de Distribución
(National Association of Midsize and Large Distributors)
www.anged.es anged@anged.es

Spanish Government Agencies:

Subdirección General de Sanidad Exterior

Ministerio de Sanidad, Servicios Sociales e Igualdad

(Responsible for Imported Foodstuffs, Contaminants and Compound Residues, Health Certification, Port Inspection and

EU Alerts) <http://www.msc.es/profesionales/saludPublica/sanidadExterior/home.htm> saniext@msssi.es

Agencia Española de Seguridad Alimentaria y Nutrición (AESAN) (Spanish Food Safety and Nutrition Agency) <http://www.aesan.msssi.gob.es>
<http://www.aesan.msc.es/SIAC-WEB/contacto.do?reqCode=newSearch>

Agencia Española de Consumo, Seguridad Alimentaria y Nutrición (AECOSAN)
(Spanish Consumption, Food Safety and Nutrition Agency)

Website: www.aecosan.msssi.gob.es

Email: <http://www.aesan.msssi.gob.es/SIAC-WEB/contacto.do?reqCode=newSearch>

Ministerio de Agricultura, Alimentación y Medio Ambiente

(Ministry of Agriculture, Food and Environmental Affairs)

<http://www.magrama.gob.es/es/alimentacion/temas/default.aspx> informac@magrama.es

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page at www.fas.usda.gov

Bibliography:

Report about food consumption in Spain 2013 – Ministry of Agriculture, Food and Environmental Affairs

Food month by month 2014 – Ministry of Agriculture, Food and Environmental Affairs

Reports of the food sector in Spain – Euromonitor International

EU Labelling requirements – US Mission to the EU

Consumer Confidence report - Centre for Sociological Research (CIS)

Trade magazines: Food distribution - Alimarket

Food and Drink consumption in Spain – Universidad Complutense de Madrid

Report about Tourism in Spain – Spanish Ministry of Tourism

Report about the Spanish External Sector and Competitiveness – Spanish Ministry of Economy and Competitiveness

Spain Economic Outlook – BBVA Research

Annual Report – MERCASA

Information from trade websites – Agronegocios, Ania, Alimentaria, Aral, Financial Food, Profesional Retail, Info-Alimenta

General newspapers – El Pais, Expansion, Cinco Días, Europa Press, Economía digital

Own Private Label in the Food Sector - Strategic Research Centre